

**EXECUTIVE SECRETARIAT****Routing Slip**

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TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
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5	DDI		✓		
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9	Chm/NIC		✓		
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**SUSPENSE** \_\_\_\_\_  
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Remarks:

25X1

Executive Secretary  
 4/19/82  
 Date

3637 (10-81)

State Dept. review completed

THE WHITE HOUSE  
WASHINGTON

82-1095

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ATTACHMENTS

## CABINET AFFAIRS STAFFING MEMORANDUM

DDI- 3213-82

DATE: April 16, 1982 NUMBER: 06891CA DUE BY: \_\_\_\_\_

SUBJECT: Cabinet Council on Economic Affairs--April 19 meeting

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Mr. Wheeler	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The CCEA will meet on Monday, April 19, at 8:45 in the Roosevelt Room. The agenda and briefing paper for item #1 are attached.

A paper on the second agenda item will be distributed at the meeting.

## RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-2823

☐ Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs  
456-2800

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THE WHITE HOUSE  
WASHINGTON

April 16, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*  
SUBJECT: Agenda and Papers for the April 19 Meeting

The agenda and papers for the Monday, April 19 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a discussion of the Versailles Economic Summit. At our April 2 meeting the Council agreed on the need to review our overall strategy for the Summit. A strategy paper developed by an interagency group chaired by Assistant Secretary of State Robert Hormats is attached.

The second agenda item is a review of the economic outlook. No papers on this issue will be circulated in advance of the meeting.

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THE WHITE HOUSE  
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

April 19, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Versailles Economic Summit (CM#234)
2. Review of the Economic Outlook (CM#109)



DEPARTMENT OF STATE

Washington, D.C. 20520

April 15, 1982

TO: Members of the Cabinet Council on Economic  
Affairs

FROM: Robert D. Hormats *RDH*

SUBJECT: The Versailles Economic Summit

Attached, for Monday's discussion on the Versailles Economic Summit, is a strategy paper developed by the Versailles SIG, incorporating comments from a number of interested agencies.

4/15/82

## Versailles Economic Summit

June 4-6, 1982

STRATEGY PAPERU.S. Objectives

Theme: The President's central theme throughout the European trip will be to affirm shared Western values and the need to revitalize Western economic and military strength in support of these values. He will stress the importance of the alliance as a symbol of shared values, and as the key to the deterrence of war. He will project himself as a strong leader committed to peace, prosperity and freedom. At Versailles, the President will strike themes first sounded at Ottawa, calling for economic revitalization on the basis of long-term policies for sound non-inflationary growth. He will also propose new initiatives to reinforce the world trading system and to restrain the flow of credit to the Soviet Union.

Major Objectives:

- To confirm the necessity of reducing inflation, of promoting private sector activity, especially private investment, and of greater reliance on market signals as essential elements in revitalizing Western economies.
- To explore avenues for greater international economic cooperation, to establish common resolve to reduce domestic inflation and promote sound economic growth, as an alternative to short-term measures that seek to evade market forces.
- To obtain a political commitment to (a) resolve problems facing the multilateral trading systems, without restoring to bilateralism or protectionist actions, (b) to extend the principles of free trade to new sectors such as services, investment, high technology and agriculture and to seek to include more fully new countries, such as the newly industrializing countries, and (c) to work for a productive GATT Ministerial this fall as an initial step in this direction.

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- To continue building a consensus on the need for Western solidarity in East-West economic relations, emphasizing the relationship between East-West trade and security issues by:

- Securing endorsement of an agreement to restrict official credits and eliminate credit subsidies to the Soviet Union and to monitor credit flows to CMEA countries.
- Continuing process to restrict sensitive technologies flowing to the USSR.

Other Objectives:

- To initiate a process leading to a framework for international investment, similar to the GATT for trade in goods.
- To reiterate the importance of agricultural policy for development, as presented at Cancun, and propose extending the "food teams" concept to a multilateral basis.
- To strengthen Western energy security.
- To initiate a multilateral program to build new ties among the next generation.

Setting

The Annual Economic Summit takes place on June 4-6 in Versailles, France. This Summit is the eighth and the first of a new round of Economic Summits, which have become a major feature of the international economic system.

At Ottawa, President Reagan re-established U.S. leadership in the economic sphere by a forceful presentation and defense of his economic program. Despite sharp differences over interest rates, East-West trade and North-South relations, the communique issued at Ottawa reflected all of the United States' major objectives -- an upbeat tone, no hint of protectionism, unified albeit ambiguous positions on North-South and East-West issues, an extraordinary degree of consensus on the nature of the Soviet threat and the Western response to it. Much of the "upbeat" tone can be attributed to the President's confidence that his economic program would lead to sharply lower inflation and sound, vigorous growth in the United States. While skeptical

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the other participants adopted a "wait-and-see" attitude about the U.S. program since it had not yet been fully implemented.

Economic and political events since Ottawa have worsened certain alliance issues, particularly in monetary, trade and East-West relations:

- recession in the U.S.;
- sharply rising unemployment, especially in Europe;
- persistently high U.S. interest rates;
- projections of large budget deficits in the U.S. and Europe, especially in France;
- exacerbation of major trade problems, such as in steel, agricultural products (European subsidies, corn gluten);
- heightened tensions within the EMS due to diverging economic policy among European countries; and
- imposition of martial law in Poland and tensions within the alliance over application of economic sanctions.

Given these events, the President's success at Ottawa will not be easy to duplicate. Even if economic activity is strengthening, unemployment in Europe will be at historic high levels, generating immense pressures for governments to "do" something. Meanwhile, many European leaders are engaging in a certain amount of "scape goatism" to transfer responsibility for their poor economic performance to the U.S., and U.S. interest rates in particular, rather than undertaking the necessary domestic policy actions to reduce inflation and revitalize growth in their economies. As importantly, unless the U.S. economy is performing better than now expected by late spring, the skeptics at home and abroad will be lobbying strongly for policy actions not consistent with the Administration's economic program.

Events in Poland, and subsequent U.S. efforts to prompt an effective, united Western response, set the stage for a Summit discussion of East-West economic issues at Versailles. Economic difficulties in Europe will influence the European approach to this discussion. Nevertheless, the need for greater attention to credit flows to CMEA countries, in light of the vulnerability of the international financial system to seriatium defaults by those countries, is widely recognized. On another front, agreement at the high-level meeting of COCOM to strengthen controls on technology flowing to the East bodes well for more effective security trade controls assuming a continuing political commitment to that process.

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### Views of Other Participants and U.S. Strategy

The French and other European Summit partners are primarily concerned by short-term domestic economic issues -- unemployment, high interest rates, monetary policy -- with particular focus on U.S. economic policy. The United States prefers to stress longer-term and more international issues such as trade and East-West relations, areas where progress has been made such as energy and North-South relations, and to point out the adverse consequences of certain domestic politics, such as subsidies, stop-go demand management, etc., on multilateral trading and financial relations and ultimately on prospects for domestic recovery and growth.

All other participants in the Summit will cite high U.S. interest rates as the factor now impeding recovery and destabilizing exchange markets. For the French and perhaps the Italians, their preferred solution involves expansionary fiscal and monetary policy to attack unemployment directly. Most, however, support a firm anti-inflationary stance by the U.S. (and for themselves up to a point) but are critical of the projected U.S. budget deficits which they believe are holding U.S. interest rates far above justified levels. Some believe they are forced to match U.S. rates to avoid depreciation of their currencies. The Europeans, in particular, hold their position on all other issues, such as trade and investment issues and restraint on credits to the Soviet Union, hostage to U.S. action on deficits and interest rates.

Japan will seek to avoid being isolated in the trade discussion, thus warding off direct criticism of its trade policies. In part, Japan will base its defense on the "undervalued" yen, caused by capital outflows attracted to the U.S. capital market by high interest rates.

In this setting, the U.S. must take the offensive by emphasizing positive objectives rather than dwelling on the criticisms of U.S. domestic policy. To this end, we have concentrated on the following topics in the preparatory process:

- greater international economic cooperation;
- trade in the broadest sense as it relates to exchange of industrial goods, services, capital, and agriculture, to domestic adjustment policies, to technological innovation and to investment;

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- East-West economic relations, with particular emphasis on growing Western vulnerability to the debt build-up in the Soviet Union; and
- energy security, as a unifying theme.

Improvement in the U.S. economy or altered expectations in the U.S. financial markets would significantly improve the climate at the Summit, and may make more achievable U.S. objectives in the international areas.

#### Versailles and NATO

The proximity of the Versailles Summit and the NATO Summit in Bonn makes particularly important a constructive meeting of the minds on the long-run economic prospects of the Western nations.

The two Summits could set in motion a process of shaping a reinvigorated world economy system for the 1980s beginning in the trade area with the GATT Ministerial scheduled for November 1982. Convergence of views on economic policy and on a stronger economic future will go far to insure a more positive attitude toward Western defense needs at Bonn. The Summits should reaffirm fundamental Western values of political freedom and economic opportunity in the face of political/military challenge and economic failure of Communist systems.

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